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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 000247

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TAGS: [ECON](#) [EINV](#) [PGOV](#) [PREL](#) [CH](#)
SUBJECT: GOOGLE UPDATE: CHINA TECH BUSINESS COMMUNITY
SPECULATES AND EVALUATES

REF: BEIJING 183

Classified By: Economic Minister Counselor Weinstein for reasons: 1.4(B), (D)

¶1. (C) Summary. Despite media reports quoting Google officials in the U.S. as saying Google is in talks with China, a Ministry of Commerce official told a visiting U.S. delegation on January 28 that "it would be better if Google stopped telling the media that it is in negotiations with China, since it is not." However, a Foreign Ministry official told Poloff earlier this week there is going to be a "meeting in Davos" that China hopes "will resolve everything in an extremely low-key and quiet manner." Separately, several U.S.-China dialogues related to IT issues were unexpectedly postponed by China this week due to the purported unavailability of key officials who had previously confirmed to attend. It is unclear, however, whether the postponements are related. Google remained the hot topic this week among our contacts in China, s information technology (IT) industry, with those in foreign firms generally supportive and appreciative of the Secretary, s speech on internet freedom. Expat executives said that while they expect the USG's highlighting of internet freedom and requests for an investigation of Google's allegations will lead to frictions with China, they welcomed the intervention in what they see as an increasingly difficult operating environment. End summary.

GOOGLE REMAINS HOT

¶2. (C) Google's decision to potentially walk away from China's market of nearly 400 million internet users continues to spark extensive discussion on a range of important related issues: censorship and information flow; principled versus bottom-line decision-making; protection of corporate proprietary information and intellectual property; and how companies can effect positive change from within a foreign economy. Secretary Clinton's January 21 speech on Internet freedom touched a nerve in China's leadership (reftel), and rightly so according to our local business contacts who regularly cite the increasingly challenging business climate in China. Locally-based western businessmen and consultants are viewing Google's confrontation with the Chinese authorities with a fascinated mix of admiration and caution, though few are willing to bet on the ultimate outcome.

¶3. (C) Western companies Chinese employees are, not surprisingly, sometimes more sympathetic to the PRC, s position. XXXXXXXXXXXX commented that Google has played matters badly, suggesting it should have tried to help PRC authorities understand what Google provides "is

good for China." Xiao stated he thinks Google approached the problem incorrectly, citing Bill Gates' position that companies must "follow the laws of the country in which they operate." Xiao also intimated that, as a Chinese citizen, he could empathize with the Chinese government's fears that Google's services could be used by Dalai Lama supporters to publicize their views throughout China. Liu Tao, Government Affairs Manager for Caterpillar, notes that the parties involved in the Google issue should discuss the issue without "being so emotional." Liu, a Chinese citizen, said that the Chinese government was "not acting emotionally" over this issue.

PREDICTIONS FOR A RESOLUTION

14. (C) A visiting London-based XXXXXXXXXXXXX executive believes the Google matter was a "good shaking of the tree for China issues needing greater visibility. Although he predicted impact from Google would not necessarily change the game for European interests here, he noted that Google has established close relations with UK Conservatives, and predicted a potential future Conservative government would be very supportive of the tenets in Secretary Clinton's recent speech. Another Beijing-based XXXXXXXXXXXXX consultant compared Google's experience to Intel, which in 2003 threatened to withdraw from China after Chinese authorities sought to impose technological modifications to its encryption-enabled products. The Chinese government ultimately backed down, but our local contact believes Chinese payback continues today and is one reason China insists that homegrown technology be

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co-installed in any WI-FI-enabled phones/communication devices. The latter local contact further suggested Google could pursue resolution of its current impasse by lobbying technologically-enlightened senior statesmen, especially more pro-business ones, who might sway China's leadership to address Google's censorship issues more moderately.

15. (C) Many contacts have opined that it appears Google will likely remain in China, albeit with a more limited presence, i.e., without a search engine service. Although Google has firmly positioned itself on censorship matters and hence will likely have little choice but to take down its Google.cn search site, they believe Google executives' public statements and vested interests still coincide with maintaining at least some presence in China.

LONG TERM OUTLOOK POSITIVE, SHORT TERM FALLOUT

16. (C) Another IT association representative told Econoff that interest in the Google case "highlights the growing number of Chinese measures and policy goals that diminish the investment environment in China... part of a troubling pattern that is making it increasingly difficult for foreign firms to do business." Business contacts told ConGen Shanghai that they "welcome a more assertive voice on behalf of the U.S. While it may not be good for U.S.-China relations in the short term, it will be better in the long term. We need to stand for what we believe in." Injecting a more cautionary note, however, another Shanghai businessman warns that "America will not advance its objectives with regard to the bilateral relationship by telling the Chinese government that it is working to put new internet technologies into the hands of dissidents. In this particular face-off, at least, the Chinese are 'spinning' the issue far more effectively than the Americans."

17. (C) Fallout beyond China's borders continues. Two governmental dialogues (the U.S. China ICT Consultations, previously scheduled for February 9, 2010, and the DOC-Ministry of Industry and Information Technology on February 2, 2010 - both in Washington DC) were postponed this week due to purported unavailability of key officials who had previously confirmed to attend. ConGen Shanghai has found many IPR-related meetings cancelled this week.

Interestingly, officials from the Swedish Embassy were summoned to the MFA to receive a protest of statements made by the Swedish FM supportive of Secretary Clinton's speech on Internet Freedom. According to our Swedish contacts, the MFA charged the Swedes with damaging ties during the 60th anniversary of Chinese-Swedish diplomatic relationship.

WHAT'S DRIVING CHINA

18. (C) According to another well-respected tech sector analyst here, a number of historical, cultural, and technological factors have coalesced to put China in a technologically-aggressive state-of-mind. One contributing factor was Microsoft's flubbed 2004 "black screen" strategy to deter intellectual property theft by darkening computer monitors running unlicensed Windows operating software. This consultant believes that example of U.S. technology effectively wielding power over China's personal computers helped spur China's aggressive campaign for source codes and its own technology. This, combined with growing Chinese pride, economic clout and influence, and the "weakened" position of the U.S. and its allies after the global economic downturn, are emboldening the Chinese to take ever more aggressive positions in advancing its innovative industries at the expense of foreign ones.

19. (C) A local Microsoft executive applauds the Secretary's speech and the Administration's commitment "to organize sustained, targeted, persistent engagement on the full range of Internet-related issues" with China. This executive said the Secretary's remarks were "right on point," particularly for companies who "desperately need the help of the USG" in the face of "harassment, threats and actual shutdowns of service, threats of licenses being revoked, resistance to provide legal authority, mandates to place servers in China, etc." Our local APCO contact described the Google issue as a "stirring of the beehive," but says the kind of harassment Microsoft describes is a fact of worsening life here which

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the Google incident only helps spotlight.
HUNTSMAN